

**MUSKEGON COUNTY ROAD COMMISSION**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**September 30, 2004**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Muskegon County Road Commission</b>	County <b>Muskegon</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>11/29/04</b>	Date Accountant Report Submitted to State: <b>1/10/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hoffman, Steensma &amp; Plamondon, P.L.C.</b>			
Street Address <b>221 W. Webster Ave., Suite 502</b>		City <b>Muskegon</b>	State <b>MI</b>
Accountant Signature <i>Douglas A. Plamondon, CPA</i>		ZIP <b>49445</b>	Date <b>1-10-05</b>

# MUSKEGON COUNTY ROAD COMMISSION

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**INDEPENDENT AUDITORS' REPORT**

**To the Board of County Road Commissioners  
of Muskegon County, Michigan**

We have audited the accompanying financial statements of the Muskegon County Road Commission (the "road commission"), a component unit of the County of Muskegon, oversight unit, as of and for the year ended September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the management of the Muskegon County Road Commission. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskegon County Road Commission as of September 30, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note A to the financial statements, the Muskegon County Road Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 40, *Deposit and Investment Risk Disclosures*, as of October 1, 2003.

The management's discussion and analysis and the required supplementary information on pages 5 - 10 and pages 31 - 33 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Muskegon County Road Commission's basic financial statements. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2004, on our consideration of the Muskegon County Road Commission's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report is on page 42.

Hoffman, Steensma & Plamondon, P.C.C.

November 9, 2004

# **MUSKEGON COUNTY ROAD COMMISSION**

## **Management's Discussion and Analysis**

**Year Ended September 30, 2004**

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### **Using this Annual Report**

The Muskegon County Road Commission's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the road commission's financial activity, (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget and (e) identify any issues or concerns. Please read it in conjunction with the road commission's financial statements which begin on page 11.

### **Reporting the Road Commission as a Whole**

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

### **Reporting the Road Commission's Major Fund**

Our analysis of the road commission's major fund begins on page 8. The fund financial statements begin on page 13 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

•Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis - Continued

Year Ended September 30, 2004

### The Road Commission as a Whole

The road commission's net assets increased approximately 24% from \$22,967,848 to \$28,568,241 for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased \$120,630. Restricted net assets, those restricted mainly for Act 51 purposes, increased \$1,644,043. The investment in capital assets category increased \$3,835,720.

It is important for the reader to realize that the increase in net assets is largely a result of the road commission electing to retroactively report infrastructure (assets acquired prior to October 1, 2000) in a subsequent year as allowed by GASB 34. If the retroactive infrastructure provisions of GASB 34 had been implemented in the current year, depreciation expense would have been higher, resulting in a smaller increase in net assets or even a decrease.

Net assets as of September 30, follows:

	<u>Governmental Activities</u>	
	2004	2003
Current and other assets	\$ 10,858,167	\$ 6,885,643
Capital assets	21,629,081	17,793,361
<b>Total assets</b>	<b>\$ 32,487,248</b>	<b>\$ 24,679,004</b>
Long-term liabilities outstanding	\$ 2,297,503	\$ 273,879
Other liabilities	1,621,504	1,437,277
<b>Total liabilities</b>	<b>\$ 3,919,007</b>	<b>\$ 1,711,156</b>
Net assets		
Invested in capital assets, net of related debt	\$ 21,629,081	\$ 17,793,361
Restricted	5,295,022	3,650,979
Unrestricted	1,644,138	1,523,508
<b>Total net assets</b>	<b>\$ 28,568,241</b>	<b>\$ 22,967,848</b>

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis - Continued

Year Ended September 30, 2004

### The Road Commission as a Whole (continued)

A summary of changes in net assets for the year ended September 30, follows:

	<u>Governmental Activities</u>	
	2004	2003
<b>Revenues</b>		
<b>Program revenues</b>		
Licenses and permits	\$ 45,960	\$ 16,200
Federal aid	1,739,452	1,417,193
State aid	10,534,263	9,038,482
Contributions from local units	266,885	614,742
Charges for services	2,189,771	2,733,503
Interest income	57,319	50,566
<b>General revenues</b>		
Property rentals	6,900	4,500
Gain on disposal of capital assets	82,592	58,150
Other general revenues	30,021	26,119
<b>Total revenues</b>	<b>14,953,163</b>	<b>13,959,455</b>
<b>Program expenses</b>		
Primary roads	3,247,733	3,242,976
Local roads	3,325,473	3,228,207
State trunkline	1,964,548	1,911,352
Net administrative	510,268	580,552
Reimbursable services	281,748	831,305
Interest on long-term debt	23,000	-
<b>Total expenses</b>	<b>9,352,770</b>	<b>9,794,392</b>
 Change in net assets	 5,600,393	 4,165,063
 <b>Net assets at beginning of year</b>	 22,967,848	 18,802,785
 <b>Net assets at end of year</b>	 \$ 28,568,241	 \$ 22,967,848



# **MUSKEGON COUNTY ROAD COMMISSION**

## **Management's Discussion and Analysis - Continued**

**Year Ended September 30, 2004**

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### **The Road Commission's Fund**

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes.

For the year ended September 30, 2004, the fund balance of the general operations fund increased \$3,775,394, as compared to an increase of \$665,463 in the fund balance for the previous year. Total revenues were \$14,953,163, an increase of \$993,708 as compared to last year. The change in revenues resulted substantially from an increase in a one time increase in state aid, specifically the change in the trailer fee collection date. Total expenditures were \$13,193,241, a decrease of \$100,751 as compared to last year. This difference was a result of cost cutting measures taken by road commission management.

### **Budgetary Highlights**

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditure requests throughout the year.

Actual revenues were higher than the budgeted revenues for 2004 by \$387,522. This was primarily due to federal and state aid being higher than expected by \$58,525 and \$248,502, respectively.

Budgeted expenditures for the road commission were \$13,398,093 while actual expenditures were \$13,193,241. Total expenditures were under budget by \$204,852. Many line items, both plus and minus, combined to result in this variance. A couple items of interest follow: (1) actual net administrative expenditures were lower than the budget by \$124,808, and (2) net capital outlay was less than budgeted by \$131,620.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis - Continued

Year Ended September 30, 2004

### Capital Asset and Debt Administration

#### Capital Assets

As of September 30, 2004, the road commission had \$21,629,081 invested in a broad range of capital assets, including trucks, equipment, roads, bridges, land and buildings as follows:

Capital assets being depreciated	
Buildings and improvements	\$ 3,890,436
Road equipment	8,242,929
Other equipment	2,142,705
Infrastructure and improvements	11,261,908
Total capital assets being depreciated	25,537,978
Less accumulated depreciation	11,775,212
Net capital assets being depreciated	13,762,766
Capital assets not being depreciated	
Land and improvements	5,308,809
Construction in progress	2,557,506
Total capital assets not being depreciated	7,866,315
Total net capital assets	\$ 21,629,081

Current year's major additions included the following:

Reconstruction of bridges	
Duck Lake at Scenic Drive	\$ 727,125
Intersection improvements	337,948
Various construction/resurfacing projects (includes hard surface maintenance)	3,078,070
Trucks/equipment	597,474

Additional information on capital assets can be found in note C on page 24 of the notes to the financial statements.

#### Debt

As of September 30, 2004, the road commission had \$2,297,503 in long-term debt outstanding. This is an increase of \$2,008,152. Most of this increase is attributable to a new bond issuance, Michigan Transportation Fund Notes, Series 2004 in the amount of \$2,000,000. This bond issue was sold to fund major repairs on several bridges and to replace two others on our primary road system.

Additional information on long-term debt can be found in note D on page 25 of the notes to the financial statements.

# **MUSKEGON COUNTY ROAD COMMISSION**

## **Management's Discussion and Analysis - Continued**

**Year Ended September 30, 2004**

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### **Economic Factors and Next Year's Budget**

Each year, the board of county road commissioners considers many factors when approving the fiscal year budget. Perhaps the single factor that has the greatest impact on the budget is the economy. For several years, the State of Michigan (state) and the nation have seen an economic downturn. The recovery from this downturn has not been as rapid as has been projected and continues to cause reduced consumption of fuel and therefore, reduced fuel taxes collected. In fiscal year 2004, the County Road Association of Michigan projects that MTF revenues will be reduced by 3 to 5 percent from fiscal year 2003. This downward trend reflects the falloff of revenue from the sale of trailer fees.

The slow growing economy does not seem to have impeded development and growth within a number of our local townships. Business and residential growth continues to further strain the road commission's budget as there are continuing demands for access to open areas and new subdivisions.

Over the years, the demand for state level road maintenance and the faltering economy has caused the state to continue to take significant amounts of fuel tax revenues, called interdepartmental grants, to fund state departments before the revenues are distributed by the Act 51 formula (our funding formula). This continued practice will further decrease available resources at the local level across the state by approximately \$45,000,000 to \$50,000,000 if revenues are not replaced during the year. The County Road Association of Michigan continues its battle in court to have this practice terminated on behalf of all road commissions and MTF recipients.

The road commission continues to maintain a full schedule of maintenance and construction projects in 2004/2005. However, the board and its staff continue to assess where potential productivity improvements and/or reductions in the budget can be made without sacrificing projects and services to the motoring public. In the future, diminishing resources will continue to result in a shift of operational focuses to preservation of our transportation system and away from expansion/construction activities. As a matter of economic necessity, the road commission will need to rely on partnerships with the townships and others in order to fund improvement to our road system.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Muskegon County's transportation system at the end of its useful life. Therefore, the board attempts to spend the public's money wisely and equitably throughout the county in the best interests of the motoring public and the citizens of Muskegon County.

### **Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department at the Muskegon County Road Commission administrative offices at 7700 East Apple Avenue, Muskegon, Michigan 49442.

# MUSKEGON COUNTY ROAD COMMISSION

## Statement of Net Assets

September 30, 2004

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### ASSETS

Cash and cash equivalents (note A4 and B)	\$	3,832,668
Investments (note A4 and B)		1,115,924
Accounts receivable		
State trunkline maintenance		331,455
State department of transportation		
Michigan Transportation Fund		1,666,458
Other		81,361
Due on county road agreements		219,803
Other governmental units		40,695
Other		44,742
Inventories (note A6)		
Road materials		515,025
Equipment materials and parts		454,601
Prepaid items (note A6)		491,581
Restricted cash and cash equivalents (note A5 and B)		2,027,951
Deferred debt expense (note A9)		35,903
		<hr/> 10,858,167 <hr/>
Capital assets (note A7 and C)		
Land and improvements, construction in progress		
and other assets not being depreciated		7,866,315
Other capital assets, net of depreciation		13,762,766
Total capital assets		<hr/> 21,629,081 <hr/>
TOTAL ASSETS	\$	<hr/> 32,487,248 <hr/>

The notes to the financial statements are an integral part of this statement.

<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities</b>	
Accounts payable	\$ 735,352
Accrued liabilities	83,279
Due to other governmental units	18,088
Advances - state trunkline	
Equipment purchase	234,711
Maintenance	141,610
Deferred revenue - forest roads	408,464
	<b>1,621,504</b>
<b>Long-term liabilities (note A8, A9 and D)</b>	
Due within one year	
Bonds payable	200,000
Compensated absences	115,953
Due in more than one year	
Bonds payable (net of unamortized premium of \$15,472)	1,815,472
Compensated absences	166,078
<b>Total long-term liabilities</b>	<b>2,297,503</b>
<b>Total liabilities</b>	<b>3,919,007</b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	21,629,081
Restricted for Act 51	5,295,022
Unrestricted	1,644,138
<b>Total net assets</b>	<b>28,568,241</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 32,487,248</b>

# MUSKEGON COUNTY ROAD COMMISSION

## Statement of Activities

Year Ended September 30, 2004

<b>Program expenses</b>	
Primary road	\$ 3,247,733
Local road	3,325,473
State trunkline	1,964,548
Net administrative	510,268
Reimbursable services	281,748
Interest on long-term debt	23,000
<b>Total program expenses</b>	<b>9,352,770</b>
<b>Program revenues</b>	
Licenses and permits	45,960
Federal aid	1,739,452
State aid	10,534,263
Contributions from local units	266,885
Charges for services	2,189,771
Interest income	57,319
<b>Total program revenues</b>	<b>14,833,650</b>
<b>Net program revenues</b>	<b>5,480,880</b>
<b>General revenues</b>	
Property rentals	6,900
Gain on disposal of capital assets	82,592
Other	30,021
<b>Total general revenues</b>	<b>119,513</b>
<b>Change in net assets</b>	<b>5,600,393</b>
<b>Net assets at beginning of year</b>	<b>22,967,848</b>
<b>Net assets at end of year</b>	<b>\$ 28,568,241</b>

The notes to the financial statements are an integral part of this statement.

# MUSKEGON COUNTY ROAD COMMISSION

## Balance Sheet

September 30, 2004

	Governmental Fund Type
	General Operations
<b>ASSETS</b>	
Cash and cash equivalents (note A4 and B)	\$ 3,832,668
Investments (note A4 and B)	1,115,924
Accounts receivable	
State trunkline maintenance	331,455
State department of transportation	
Michigan Transportation Fund	1,666,458
Other	81,361
Due on county road agreements	219,803
Other governmental units	40,695
Other	44,742
Inventories (note A6)	
Road materials	515,025
Equipment materials and parts	454,601
Prepaid items (note A6)	491,581
Restricted cash and cash equivalents (note A5 and B)	2,027,951
<b>TOTAL ASSETS</b>	<b>\$ 10,822,264</b>

The notes to the financial statements are an integral part of this statement.

	Governmental Fund Type
	General Operations
<b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 735,352
Accrued liabilities	60,279
Due to other governmental units	18,088
Advances - state trunkline	
Equipment purchase	234,711
Maintenance	141,610
Deferred revenue - forest roads	408,464
<b>Total liabilities</b>	<b>1,598,504</b>
<b>Fund balance (note A10)</b>	
Reserved for inventories	969,626
Reserved for prepaid items	491,581
Reserved for bridge construction	2,027,951
Unreserved	
Designated (note J)	1,558,244
Undesignated	4,176,358
<b>Total fund balance</b>	<b>9,223,760</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 10,822,264</b>



# MUSKEGON COUNTY ROAD COMMISSION

## Reconciliation of the Balance Sheet Fund Balance to the

### Statement of Net Assets

September 30, 2004

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Total governmental fund balance	\$	9,223,760
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.

Governmental capital assets	\$	33,404,293	
Accumulated depreciation		(11,775,212)	21,629,081

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.

Bond issuance costs		35,903
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental fund.

Governmental bonds payable	(2,000,000)	
Unamortized bond premium	(15,472)	
Accrued interest on the bonds	(23,000)	
Compensated absences	(282,031)	(2,320,503)

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Net assets of governmental activities	\$	28,568,241
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The notes to the financial statements are an integral part of this statement.

# MUSKEGON COUNTY ROAD COMMISSION

## Statement of Revenues, Expenditures and Changes in Fund Balance Year Ended September 30, 2004

	Governmental Fund Type General Operations
<b>Revenues</b>	
Licenses and permits	\$ 45,960
Federal aid	1,739,452
State aid	10,534,263
Contributions from local units	266,885
Charges for services	2,189,771
Interest income	57,319
Other	119,513
<b>Total revenues</b>	<b>14,953,163</b>
<b>Expenditures</b>	
Public works	13,336,458
Capital outlay (net)	(143,217)
<b>Total expenditures</b>	<b>13,193,241</b>
<b>Excess of revenues over expenditures</b>	<b>1,759,922</b>
<b>Other financing sources</b>	
Bonds issued	2,000,000
Premium on bonds	15,472
<b>Total other financing sources</b>	<b>2,015,472</b>
<b>Excess of revenues and other sources over expenditures</b>	<b>3,775,394</b>
<b>Fund balance at beginning of year</b>	<b>5,448,366</b>
<b>Fund balance at end of year</b>	<b>\$ 9,223,760</b>

The notes to the financial statements are an integral part of this statement.

# MUSKEGON COUNTY ROAD COMMISSION

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities Year Ended September 30, 2004

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Net change in fund balance - total governmental fund	\$	3,775,394
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in  
the statement of activities, the cost of those assets is depreciated over  
their estimated useful lives.

Expenditures for capital assets	\$	5,211,150	
Current year depreciation		<u>(1,357,120)</u>	3,854,030

Governmental funds only report the disposal of assets to the extent proceeds  
are received from the sale. In the statement of activities, a gain or loss  
is reported for each disposal.

Gain on sale of capital assets		82,592	
Net proceeds from sale of capital assets		<u>(100,902)</u>	(18,310)

The issuance of long-term debt provides current financial resources to  
governmental funds, while the repayment of the principal of long-term  
debt consumes the current financial resources of governmental funds.  
Neither transaction, however, has any effect on net assets. Also,  
governmental funds report the effect of issuance costs, premiums,  
discounts and similar items when debt is first issued, whereas these  
amounts are deferred and amortized in the statement of activities.

Bonds issued	(2,000,000)	
Bond premium	(15,472)	
Bond issuance costs	35,903	
Change in accrued interest on the bonds	(23,000)	
Change in long-term compensated absences	<u>(8,152)</u>	(2,010,721)

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Change in net assets of governmental activities	\$	5,600,393
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The notes to the financial statements are an integral part of this statement.

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements

September 30, 2004

### Note A - Summary of Significant Accounting Policies

The accounting policies of the Muskegon County Road Commission (the "road commission") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies establishing GAAP and used by the road commission are discussed below.

The road commission adopted GASB 40, *Deposit and Investment Risk Disclosures*, as of October 1, 2003. The adoption of this change in accounting principles had no effect on the financial condition or result of operations of the road commission as of and for the year ended September 30, 2004, but did change some of the disclosures required for the notes to the financial statements.

#### 1. Financial Reporting Entity

The Muskegon County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the Muskegon County Board of Commissioners. The road commission may not issue debt without the county's approval and property tax levies are subject to the Muskegon County Board of Commissioners' approval.

The criteria established by GASB 14, "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based upon the application of the above criteria, these financial statements present the Muskegon County Road Commission, a discretely presented component unit of the County of Muskegon.

The road commission's operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are dedicated by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the road commission's general operating fund.

#### 2. Basis of Accounting - Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the road commission as a whole. They include all funds of the reporting entity. These statements distinguish between activities that are governmental and those that are considered business-type activities. Currently, all road commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

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### Note A - Summary of Significant Accounting Policies (continued)

#### 2. Basis of Accounting - Government-Wide Financial Statements (continued)

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are both specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the road commission.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the road commission's policy to use restricted resources first, then unrestricted resources as they are needed.

#### 3. Basis of Accounting - Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three major categories: governmental, proprietary and fiduciary. The road commission has only one fund, the general operations fund, which is a governmental fund. The focus of the governmental financial statements is on major funds rather than reporting funds by type. The road commission's only fund is a major fund.

The road commission reports the following major fund:

#### Special Revenue Fund

General Operations Fund - To control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes.

The following is a description of the governmental category:

#### Governmental Fund

The governmental fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

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### Note A - Summary of Significant Accounting Policies (continued)

#### 3. Basis of Accounting - Fund Financial Statements (continued)

##### Governmental Fund (continued)

##### Revenue Recognition

"Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The road commission considers special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within two months of year end. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

##### Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental fund.

#### 4. Cash, Cash Equivalents and Investments

The road commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity date of three months or less when acquired. Investments are stated at fair value.

#### 5. Restricted Assets

Proceeds of the road commission's Michigan Transportation Fund Notes, Series 2004 are restricted for the construction of bridges. These amounts have been classified as restricted assets.

#### 6. Inventories and Prepaid Items

Inventories are valued at the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs and operations as used. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

### Note A - Summary of Significant Accounting Policies (continued)

#### 7. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the general operations fund in the government-wide financial statements. Capital assets are defined by the road commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historic cost or estimated historical cost of purchase or construction. Contributed assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on the sum-of-the-years'-digits method for road equipment and on the straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 - 50
Road equipment	5 - 8
Other equipment	4 - 20
Infrastructure	5 - 50

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The road commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The road commission will retroactively capitalize the major infrastructure assets on or before September 30, 2006, as permitted by GASB 34.

#### 8. Compensated Absences

The road commission accrues unused portions of vacation pay in the period the fund liability is incurred. As permitted by GASB 16, the vesting method is used to accrue the sick leave liability.

The liability is based on the sick leave accumulated at year-end by those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments.

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, a liability for these amounts is reported in the governmental fund only for employee terminations as of year end.

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

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### Note A - Summary of Significant Accounting Policies (continued)

#### 9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements the governmental fund recognizes bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific purpose. Reserves exist for prepaid items as those items will be expended in subsequent years. Designations of fund balance represent tentative management plans that are subject to change.

#### 11. Budgetary Procedures

Budgetary procedures are established pursuant to Act 621 PA 1978, as amended, (MCL 141.421) which requires the commissioners to approve a budget for the general operations fund. Pursuant to the Act, the road commission follows the following procedures:

- The director of financial services submits to the board of commissioners, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted at the road commission to obtain public comments.
- Prior to September 30, the budget and annual appropriations are legally adopted by the board of commissioners.
- Formal budget integration is employed as a management control device during the year for the general operations fund.
- Budgets as presented are prepared on the modified accrual basis of accounting.
- Budgetary control is exercised at the category level.
- The budgetary information presented has been amended during the year by an official action of the board of commissioners.



# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

### Note A - Summary of Significant Accounting Policies (continued)

#### 11. Budgetary Procedures (continued)

- All budget appropriations lapse at year end.

Act 621 PA 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the year ended September 30, 2004, the road commission incurred expenditures which were significantly in excess of the amounts appropriated as follows:

<u>Special Revenue Fund</u>	<u>Amended Budget</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
Primary road			
Construction	\$ 4,535	\$ 27,268	\$ (22,733)
Maintenance	2,853,727	2,999,456	(145,729)
Local road			
Construction	128,938	133,787	(4,849)
Heavy maintenance	1,238,386	1,386,016	(147,630)
Equipment expenditures	(62,741)	(47,406)	(15,335)

All expenditures over appropriations have been paid by the reduction of fund balance.

### Note B - Cash, Cash Equivalents and Investments

MCL 129.91 authorizes the road commission to deposit and invest in the following:

- In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- In banker's acceptance of United States banks.
- In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

### Note B - Cash, Cash Equivalents and Investments (continued)

State statutes require that certificates of deposit, savings accounts, deposits accounts and depository receipts be made with banks doing business and having an office in the State of Michigan.

Cash and cash equivalents are amounts that can be withdrawn at anytime, similar to a demand deposit account.

Investments with a maturity of greater than one year at the date of purchase are stated at fair value, and all other investments are stated at cost or amortized cost.

#### Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The road commission does not have a policy for custodial credit risk.

At year end, the carrying amount of the road commission's deposits was \$4,156,953 and the bank balance was \$4,390,849. Of the bank balance, \$200,000 was covered by federal depository insurance and \$4,190,849 was exposed to custodial credit risk as it was uninsured and uncollateralized.

#### Investments

As of September 30, 2004, the road commission had the following investments:

	Carrying Amount	Moody's Credit Rating
<u>Money market funds</u>	<u>\$ 2,819,590</u>	<u>P-1</u>

Concentration of credit risk. The road commission places no limit on the amount it may invest in any one issuer. More than 5% of the road commission's investments are in Huntington National Bank money market accounts. This investment is 100% of the road commission's total investments.

Total deposits and investments at September 30, 2004, were \$6,976,543 are presented as follows:

<u>Balance Sheet Classification</u>	<u>Combined Total</u>
Governmental Funds Balance Sheet	
Cash and cash equivalents	\$ 3,832,668
Investments	1,115,924
Restricted cash and cash equivalents	2,027,951
	<u>\$ 6,976,543</u>

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

### Note C - Capital Assets

Capital asset activity for the year ended September 30, 2004 was as follows:

	Balance October 1, 2003	Additions	Deletions	Balance September 30, 2004
<b>Governmental activities</b>				
<b>Capital assets being depreciated</b>				
Buildings and improvements	\$ 3,872,078	\$ 30,784	\$ (12,426)	\$ 3,890,436
Road equipment	7,978,536	528,924	(264,531)	8,242,929
Other equipment	2,259,025	68,550	(184,870)	2,142,705
Infrastructure and improvements	9,683,109	1,578,799	-	11,261,908
<b>Total capital assets being depreciated</b>	<b>23,792,748</b>	<b>2,207,057</b>	<b>(461,827)</b>	<b>25,537,978</b>
<b>Less accumulated depreciation</b>				
Buildings and improvements	1,777,950	135,857	(9,043)	1,904,764
Road equipment	6,676,652	534,669	(250,437)	6,960,884
Other equipment	1,579,056	110,562	(184,037)	1,505,581
Infrastructure and improvements	827,951	576,032	-	1,403,983
<b>Total accumulated depreciation</b>	<b>10,861,609</b>	<b>1,357,120</b>	<b>(443,517)</b>	<b>11,775,212</b>
<b>Net capital assets being depreciated</b>	<b>12,931,139</b>	<b>849,937</b>	<b>(18,310)</b>	<b>13,762,766</b>
<b>Capital assets not being depreciated</b>				
Land and improvements	4,862,222	446,587	-	5,308,809
Construction in progress	-	2,557,506	-	2,557,506
<b>Total capital assets not being depreciated</b>	<b>4,862,222</b>	<b>3,004,093</b>	<b>-</b>	<b>7,866,315</b>
<b>Total net capital assets</b>	<b>\$ 17,793,361</b>	<b>\$ 3,854,030</b>	<b>\$ (18,310)</b>	<b>\$ 21,629,081</b>

Depreciation expense was charged to programs of the road commission as follows:

Primary road	\$ 686,001
Local road	574,805
State trunkline	76,498
Administrative	19,816
<b>Total depreciation expense</b>	<b>\$ 1,357,120</b>

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

### Note D - Long-Term Debt

Long-term debt at September 30, 2004, consisted of the following:

#### Governmental Activities

\$2,000,000 Michigan Transportation Fund Notes, Series 2004; due in annual installments of \$200,000 through August 2014; interest at 3.00% to 4.00% (unamortized premium \$15,472). \$ 2,000,000

Long-term compensated absences 282,031

Total governmental activities long-term liabilities \$ 2,282,031

The annual requirements to amortize all bonds and loans outstanding as of September 30, 2004, including interest of \$415,083 follows:

Years ending September 30,	<u>Governmental Activities</u>	
	Principal	Interest
2005	\$ 200,000	\$ 81,083
2006	200,000	63,500
2007	200,000	57,500
2008	200,000	51,500
2009	200,000	45,000
2010-2014	1,000,000	116,500
	<u>\$ 2,000,000</u>	<u>\$ 415,083</u>

The following is a summary of bonds and loans and compensated absences transactions for the year ended September 30, 2004:

	Balance October 1, 2003	Additions	Repayments	Balance September 30, 2004
Governmental bonds and loans	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
Long-term compensated absences	273,879	8,152	-	282,031
	<u>\$ 273,879</u>	<u>\$ 2,008,152</u>	<u>\$ -</u>	<u>\$ 2,282,031</u>

The full faith and credit of the road commission has been pledged for the repayment of all bonds and loans payable. There are a number of limitations and restrictions contained in the various bond indentures. The road commission is in substantial compliance with all significant limitations and restrictions.

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

### Note E - Defined Benefit Pension Plan

#### Description of Plan and Plan Assets

The road commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

#### Funding Policy

Plan members are not required to contribute to the plan. The road commission is required to contribute at an actuarially determined rate; the current rate is 6.50% to 45.40% of annual covered payroll depending on the plan. The contribution requirements of plan members and the road commission are established and may be amended by MERS.

#### Annual Pension Cost

For the year ended September 30, 2004, the road commission's contributions totaling \$302,630 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used included (a) 8.0% long-term net investment rate of return, (b) projected salary increases ranging from 0.00% to 4.16% per year and (c) 4.50% per year cost-of-living adjustments. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Fiscal Year Ended September 30,	Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 187,549	100%	\$ -
2003	199,856	100%	-
2004	302,630	100%	-

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

### Note F - Other Post Employment Benefits

In addition to pension benefits, the road commission extends medical insurance coverage to retirees. This employer-paid benefit is provided upon the employee completing ten consecutive years of service and meeting other eligibility requirements. Upon that attainment, the employee and eligible dependents, as applicable, are provided with medical insurance substantially equivalent to that provided to existing employees in their classification until they are eligible for federal Medicare coverage. After becoming eligible for Medicare coverage, the road commission provides a Medicare supplemental policy with prescription coverage to retirees. The road commission has sixty-four individuals/family groups receiving benefits. The benefits are financed by the road commission on a pay-as-you-go basis out of the General Operations Fund. Effective July 1, 2004, the road commission began to self-insure for retiree health benefits. Current year claims for covered individuals under the self-insurance program were \$11,414.

### Note G - Risk Management

The road commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The road commission manages its liability and property risk by participating in Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a trust fund established by the road commissions in the State of Michigan. The MCRCSIP is a public entity risk pool currently operating as a common risk management and insurance program. The road commission pays an annual premium to MCRCSIP for its general liability coverage. The MCRCSIP is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of certain limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The road commission manages its workers' compensation risk by participating in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The road commission pays an annual premium to CRASIF for its workers' compensation coverage. The CRASIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and carrying reinsurance through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The road commission carries commercial insurance for underground storage tank systems.

The road commission also carried commercial coverage for employee health and accident insurance until June 30, 2004. Effective July 1, 2004 the road commission began to self-insure for employees' health benefits and account for and finance its uninsured risk of loss in the General Operations Fund. Under this program, the road commission provides specific coverage for up to a maximum of \$75,000 per covered individual and certain aggregate coverage for the plan year. The road commission purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

# MUSKEGON COUNTY ROAD COMMISSION

## Notes to the Financial Statements - Continued

September 30, 2004

### Note G - Risk Management (continued)

The road commission operates the self-insurance program on a pay-as-you-go basis. The claims liability of \$25,062 reported in the General Operations Fund at September 30, 2004, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Changes in the funds claims liability amount in fiscal year 2004 were as follows:

Fiscal Year Ended September 30,	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2004	\$ -	\$ 71,969	\$ 46,907	\$ 25,062

### Note H - Lease Commitments

The road commission leases certain road equipment under five operating leases. Lease expense for the year ended September 30, 2004 was \$108,810.

Minimum future lease commitments are as follows:

Years ending September 30,	
2005	\$ 239,319
2006	149,716
2007	73,852
2008	230,430
2009	107,977
	<u>\$ 801,294</u>

### Note I - Contingent Liabilities

The road commission is party to various legal proceedings and claims which normally occur in government operations. Although the outcome of the legal proceedings and claims is not presently determinable, it is the opinion of the road commission's management that the resolution of these matters will not have a material adverse effect on the financial condition of the road commission.

### Note J - Designated Fund Balance

The road commission designates a portion of its Act 51 revenues realized from a 1996 gasoline tax increase for the purpose of local road improvement programs in the townships. The allocation of funds is based upon road mileage and population within each township.

# MUSKEGON COUNTY ROAD COMMISSION

Notes to the Financial Statements - Continued

September 30, 2004

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## Note K - Federal Grants

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2004, the federal aid received and expended by the road commission was \$1,739,452 for contracted projects and none for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more.



**REQUIRED SUPPLEMENTARY INFORMATION**

# MUSKEGON COUNTY ROAD COMMISSION

## General Operations Fund

### Budgetary Comparison Schedule

#### Schedule of Revenues and Other Financing Sources

Year Ended September 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive Negative
Licenses and permits				
Permits	\$ 20,000	\$ 46,000	\$ 45,960	\$ (40)
Federal aid				
Surface Transportation Program	1,895,919	1,157,927	1,216,869	58,942
Critical Bridge Program	400,000	388,000	387,650	(350)
Federal D funds	135,000	135,000	134,933	(67)
State aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Snow removal	80,000	83,049	83,049	-
Urban road	1,098,000	1,115,402	1,239,811	124,409
Allocation	7,500,000	8,379,310	8,503,719	124,409
State Critical Bridge Program	75,000	73,000	72,684	(316)
Other Transfer - US 31	625,000	625,000	625,000	-
Contributions from local units				
Townships	300,000	111,608	226,190	114,582
Other	50,000	40,000	40,695	695
Charges for services				
State trunkline				
Maintenance	1,765,000	1,808,742	1,779,248	(29,494)
Nonmaintenance	135,000	135,000	134,885	(115)
Salvage sales	1,000	4,000	3,996	(4)
Reimbursements - labor				
and materials	250,000	280,912	271,642	(9,270)
Interest income	70,000	47,020	57,319	10,299
Other revenue				
Property rentals	4,000	6,900	6,900	-
Gain on disposal of capital assets	15,000	88,771	82,592	(6,179)
Other	10,000	30,000	30,021	21
Total revenues	14,438,919	14,565,641	14,953,163	387,522
Other financing sources				
Bond proceeds	-	-	2,015,472	2,015,472
Total revenues and other financing sources	14,438,919	14,565,641	\$ 16,968,635	\$ 2,402,994
Fund balance at beginning of year	5,448,366	5,448,366		
Total budget	\$ 19,887,285	\$ 20,014,007		

# MUSKEGON COUNTY ROAD COMMISSION

General Operations Fund

Budgetary Comparison Schedule

Schedule of Expenditures

Year Ended September 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Primary road</b>				
Construction	\$ -	\$ 4,535	\$ 27,268	\$ (22,733)
Heavy maintenance	4,609,000	3,206,371	3,007,898	198,473
Maintenance	2,635,500	2,853,727	2,999,456	(145,729)
<b>Local road</b>				
Construction	-	128,938	133,787	(4,849)
Heavy maintenance	1,784,300	1,238,386	1,386,016	(147,630)
Maintenance	2,900,600	3,402,626	3,356,008	46,618
<b>State trunkline</b>				
Maintenance	1,765,000	1,869,157	1,829,663	39,494
Nonmaintenance	135,000	135,000	134,885	115
<b>Equipment expenditures (net)</b>				
Direct	1,300,000	1,347,947	1,327,106	20,841
Indirect	950,000	988,571	1,048,047	(59,476)
Operating	300,000	288,734	270,685	18,049
Less: Equipment rentals	(2,600,000)	(2,687,993)	(2,693,244)	5,251
<b>Total equipment expenditures (net)</b>	<b>(50,000)</b>	<b>(62,741)</b>	<b>(47,406)</b>	<b>(15,335)</b>
<b>Administrative expenditures (net)</b>				
Administrative expenditures	851,300	828,991	696,848	132,143
Less: Handling charges	(35,000)	(35,000)	(33,588)	(1,412)
Overhead - state	(160,000)	(160,000)	(154,082)	(5,918)
Other	(300)	(300)	(295)	(5)
<b>Total administrative expenditures (net)</b>	<b>656,000</b>	<b>633,691</b>	<b>508,883</b>	<b>124,808</b>
<b>Capital outlay (net)</b>				
Capital outlay	815,500	717,759	656,181	61,578
Less: Depreciation	(850,000)	(720,000)	(781,088)	61,088
Equipment retirements	(50,000)	(9,356)	(18,310)	8,954
<b>Total capital outlay (net)</b>	<b>(84,500)</b>	<b>(11,597)</b>	<b>(143,217)</b>	<b>131,620</b>
<b>Total expenditures</b>	<b>14,350,900</b>	<b>13,398,093</b>	<b>\$ 13,193,241</b>	<b>\$ 204,852</b>
<b>Fund balance at end of year</b>	<b>9,223,760</b>	<b>9,223,760</b>		
<b>Total budget</b>	<b>\$ 23,574,660</b>	<b>\$ 22,621,853</b>		

# MUSKEGON COUNTY ROAD COMMISSION

## Schedule of Funding Progress

### Municipal Employees Retirement System of Michigan

September 30, 2004

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated.

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Overfunded (Underfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2001	\$ 16,654,690	\$ 16,507,280	\$ 147,410	101%	\$ 3,597,383	-
2002	16,386,682	17,634,717	(1,248,035)	93%	3,743,329	34%
2003	16,465,739	18,222,372	(1,756,633)	91%	3,563,575	50%

**SUPPLEMENTAL FINANCIAL INFORMATION**

### SPECIAL REVENUE FUND

The special revenue fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

General Operations Fund - To control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes.

# MUSKEGON COUNTY ROAD COMMISSION

## Analysis of Changes in Fund Balance

### Special Revenue Fund

Year Ended September 30, 2004

	Primary Road	Local Road	County Road Commission	Total
Total revenues	\$ 9,214,803	\$ 3,425,723	\$ 2,312,637	\$ 14,953,163
Total expenditures	6,155,642	4,834,973	2,202,626	13,193,241
Excess (deficiency) of revenues over expenditures	3,059,161	(1,409,250)	110,011	1,759,922
Other financing sources (uses)				
Optional transfers	(2,142,518)	2,142,518	-	-
Bond proceeds	2,000,000	-	-	2,000,000
Bond premium	15,472	-	-	15,472
Total other financing sources (uses)	(127,046)	2,142,518	-	2,015,472
Excess of revenues and other sources over expenditures and other uses	2,932,115	733,268	110,011	3,775,394
Fund balance at beginning of year	3,501,268	346,821	1,600,277	5,448,366
Fund balance at end of year	\$ 6,433,383	\$ 1,080,089	\$ 1,710,288	\$ 9,223,760

# MUSKEGON COUNTY ROAD COMMISSION

Analysis of Revenues

Special Revenue Fund

Year Ended September 30, 2004

	Primary Road	Local Road	County Road Commission	Total
<b>Licenses and permits</b>				
Permits	\$ -	\$ -	\$ 45,960	\$ 45,960
<b>Federal aid</b>				
Surface Transportation Program	1,216,869	-	-	1,216,869
Critical Bridge Program	-	387,650	-	387,650
Federal D funds	134,933	-	-	134,933
<b>State aid</b>				
Michigan Transportation Fund				
Engineering	7,261	2,739	-	10,000
Snow removal	60,302	22,747	-	83,049
Urban road	876,904	362,907	-	1,239,811
Allocation	6,197,259	2,306,460	-	8,503,719
State Critical Bridge Program	-	72,684	-	72,684
Other Transfer - US 31	625,000	-	-	625,000
<b>Contributions from local units</b>				
Townships	-	226,190	-	226,190
Other	-	40,695	-	40,695
<b>Charges for services</b>				
State trunkline				
Maintenance	-	-	1,779,248	1,779,248
Nonmaintenance	-	-	134,885	134,885
Salvage sales	-	-	3,996	3,996
Reimbursements - labor and materials	-	-	271,642	271,642
Interest income	36,833	3,651	16,835	57,319
<b>Other revenue</b>				
Property rentals	-	-	6,900	6,900
Gain on disposal of capital assets	59,442	-	23,150	82,592
Other	-	-	30,021	30,021
<b>Total revenues</b>	<b>\$ 9,214,803</b>	<b>\$ 3,425,723</b>	<b>\$ 2,312,637</b>	<b>\$ 14,953,163</b>



# MUSKEGON COUNTY ROAD COMMISSION

## Analysis of Expenditures

### Special Revenue Fund

Year Ended September 30, 2004

	Primary Road	Local Road	County Road Commission	Total
Primary road				
Construction	\$ 27,268	\$ -	\$ -	\$ 27,268
Heavy maintenance	3,007,898	-	-	3,007,898
Maintenance	2,999,456	-	-	2,999,456
Local road				
Construction	-	133,787	-	133,787
Heavy maintenance	-	1,386,016	-	1,386,016
Maintenance	-	3,074,260	281,748	3,356,008
State trunkline				
Maintenance	-	-	1,829,663	1,829,663
Nonmaintenance	-	-	134,885	134,885
Equipment expenditures (net)	(15,654)	(19,678)	(12,074)	(47,406)
Administrative expenditures (net)	288,927	219,956	-	508,883
Capital outlay (net)	(152,253)	40,632	(31,596)	(143,217)
Total expenditures	\$ 6,155,642	\$ 4,834,973	\$ 2,202,626	\$ 13,193,241

**SCHEDULE OF INDEBTEDNESS**

# MUSKEGON COUNTY ROAD COMMISSION

## Schedule of Indebtedness

September 30, 2004 and 2003

	Date of Issue	Amount of Issue	Interest Rate	
Governmental Activities Bonds and Loans Payable				
Michigan Transportation Fund Notes, Series 2004	7-14-04	\$ 2,000,000	3.00	%
			3.00	
			3.00	
			3.25	
			3.50	
			3.50	
			3.75	
			3.75	
			4.00	
			4.00	
Total Bonds and Loans Payable				

Date of Maturity	Balance Outstanding September 30,		Annual Interest Payable
	2003	2004	
8-01-05	\$ -	\$ 200,000	\$ 81,083
8-01-06	-	200,000	63,500
8-01-07	-	200,000	57,500
8-01-08	-	200,000	51,500
8-01-09	-	200,000	45,000
8-01-10	-	200,000	38,000
8-01-11	-	200,000	31,000
8-01-12	-	200,000	23,500
8-01-13	-	200,000	16,000
8-01-14	-	200,000	8,000
	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ 415,083</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of County Road Commissioners  
of Muskegon County, Michigan

We have audited the financial statements of the Muskegon County Road Commission, a component unit of the County of Muskegon, oversight unit, as of and for the year ended September 30, 2004, which collectively comprise the Muskegon County Road Commission's basic financial statements and have issued our report thereon dated November 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Muskegon County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance**

As part of obtaining reasonable assurance about whether the Muskegon County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hoffman, Steensma & Plamondon, P.L.C.*

November 9, 2004

# MUSKEGON COUNTY ROAD COMMISSION

## Schedule of Expenditures of Federal and Other Awards Year Ended September 30, 2004

Federal Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Approved Award/ Grant Amount	Accrued (Deferred) Revenue October 1, 2003
<b>U.S. Department of Transportation, Federal Highway Administration</b>				
<b>Passed Through Michigan Department of Transportation</b>				
<b>Highway Planning and Construction (1)</b>				
Proj STP0161 (219) Fed Item HH2838 (3)	20.205	01-5317	\$ 460,673	\$ -
Proj STP0261 (329) Fed Item RR3182 (3)	20.205	02-5239	133,864	-
Proj STP0261 (341) Fed Item HH3280 (3)	20.205	03-5107	496,823	-
Proj CM 0261 (332) Fed Item RR3190 (3)	20.205	02-5231	304,000	-
Proj STP0361 (003) Fed Item YY0192 (3)	20.205	02-5560	245,156	-
Proj STP0261 (340) Fed Item LL0197 (3)	20.205	02-5363	61,298	-
Proj BRO0361 (024) Fed Item RR3727 (3)	20.205	04-5019	460,000	-
Proj STO0361 (025) Fed Item HH3642 (3)	20.205	03-5454	679,619	-
Proj STP0461 (313) Fed Item YY0239 (3)	20.205	04-5310	482,919	-
<b>Total Federal and Other Assistance</b>			<b>\$ 3,324,352</b>	<b>\$ -</b>

### NOTES

1. Highway Planning and Construction was the major program.
2. The above schedule was prepared on the accrual basis of accounting.
3. These programs are administered by the Michigan Department of Transportation and federal compliance reports of these programs are included in the single audit of MDOT.

Current Year Revenues Received		Current Year Expenditures		Accrued (Deferred) Revenue September 30, 2004
Federal Grants	Other Sources	Federal Grants	Other Sources	
\$ 511	\$ 959	\$ 511	\$ 959	\$ -
250	-	250	-	-
49,370	-	49,370	-	-
118,673	17,135	118,673	17,135	-
1,568	2,656	1,568	2,656	-
18,892	5,747	18,892	5,747	-
387,650	165,195	387,650	165,195	-
679,619	137,358	679,619	137,358	-
482,919	216,226	482,919	216,226	-
\$ 1,739,452	\$ 545,276	\$ 1,739,452	\$ 545,276	\$ -